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Q: What are the upcoming changes to CPP? How will they affect me?

A series of important changes to the Canada Pension Plan began in January 2011 and will be fully implemented by 2016.

TAKING CPP EARLIER VERSUS LATER

Your CPP retirement pension will be even higher if you opt to take it after age 65. Before the changes, CPP retirement pensions increased by 0.5 per cent for each month after age 65—up to age 70—that you delayed receiving your pension. By 2013, if you start receiving your CPP pension at the age of 70, your pension amount will be 42 per cent more than if you opted to take it at age 65.

Your CPP retirement pension will be soon be even lower if you take it before age 65, however. Before the changes, CPP retirement pensions decreased by 0.5 per cent for

each month before age 65 that you started receiving your pension. By 2016, if you start receiving your CPP pension at the age of 60—the earliest you can get it—your pension amount will be 36 per cent lower than if you had waited and chosen to take it at age 65.

CHANGES TO THE GENERAL DROP-OUT PROVISION

Starting in 2012, the number of years of low or zero earnings that are automatically dropped from the calculation of your CPP pension will increase. By 2014, you will be able to drop eight of your lowest-earning years from the calculation—this change will also affect incorporated business owners when they decide whether or not to contribute to CPP.

ELIMINATION OF THE WORK CESSATION TEST

Starting in 2012 you will be able to start receiving your CPP pension without stopping work—this will make it easier for Canadians to make a phased transition into retirement.

INTRODUCTION OF THE POST-RETIREMENT BENEFIT (PRB)

Starting in 2012 if you are receiving your CPP pension and you choose to continue to work, you can also continue to make CPP contributions that will increase your pension payments through the PRB. The newly created PRB will be comprised of contributions made while you are receiving your CPP retirement pensions. If you are under age 65, contributions will be mandatory for you and your employer. If you are aged 65 to 70, contributions will be voluntary—your employer will have to contribute if you do. Once you start making these contributions, you will begin receiving your PRB the following year.

The new rules are complex and your decision about when to take CPP—as well as figuring out how to maximize the amount you receive—should be planned very carefully. As always, please feel free to email me at jswanson@bmfsg.ca if you would like further information about this important issue. ■

